

TEACHERS' RETIREMENT BOARD
REGULAR MEETING

SUBJECT: Defined Benefit Supplement Proposal

ITEM NUMBER: 6c

ATTACHMENT(S)

ACTION: X

DATE OF MEETING: April 5, 2001

INFORMATION:

PRESENTER (S): Ken Costa

Background

Chapter 74, Statutes of 2000 (AB 1509 – Machado) requires the Board to establish and administer the Defined Benefit Supplement (DBS) Program. This new program became effective January 1, 2001. All active DB (450,000) members will require a new DBS account. Active members of the Defined Benefit (DB) program currently contribute eight percent of their CalSTRS-covered salary towards retirement. However, between January 1, 2001 and January 1, 2011, 25 percent of those contributions (2 percent of salary) will be allocated to a DBS Program account established for the member and the remaining 6 percent of the contributions on creditable compensation earned by the member will go to the member's DB Program account.

On November 22, 2000, CalSTRS issued the Request for Proposal (RFP) "Defined Benefit Supplement Program and Cash Balance Benefit Program Third Party Record Keeper and Voluntary Investment Program Master Custody RFP Number 2P20002". This solicitation was to cover all participants in the Defined Benefit Supplement, Cash Balance Program and Voluntary Investment (403b, VIP) Programs. In the current year, there is \$200,000 I available funds that were appropriated to begin implementing AB 1509. The Board approved \$1.3 million in the budget beginning in 2001/02 for record keeping services associated with DBS and CB Benefit Program, for a total \$1.5 million over the two fiscal years.

The targeted date for contract award was February 16, 2001, and the projected start date was March 1, 2001. The number of proposals submitted was less than expected and the cost substantially higher than anticipated by CalSTRS project oversight consultant, Milliman and Robertson.

A decision was made on January 30, 2001, to terminate the RFP for the Defined Benefit Supplement Program and Cash Balance Benefit Program Third Party Record Keeper (TPRK) and Voluntary Investment Program Master Custody.

Alternatives considered since RFP Termination were:

- An internal record keeping solution using the START System and issuing a new RFP for the VIP administration;
- An internal record keeping solution using the Cash Balance System, and issuing a new RFP for the VIP administration;
- Revising the RFP by removing the administration of the VIP and reissuing two separate RFPs, one for the VIP administration and another for the DBS Program and CB Benefit Program record keeping services; and
- Issuing a new RFP for the VIP and another RFP for record keeping software for the DBS Program and the CB Benefit Program to be administered in-house.

CalSTRS administers the DB plan with the aid of a new computer system (START) developed with the aid of WorldGroup Consulting (WGC). The CB Benefit Program is administered by CalSTRS with the aid of two computer systems. One system was developed by WGC using components cloned from START and handles primarily the contributions while the other system is PC based and handles the processing of benefits.

The contributions to the DBS are tightly linked to the contributions to the DB plan. A Change Initiation Request (CIR324) is already in process within the START system to make the necessary provisions within START to handle this aspect of the DBS plan required by AB 1509. This work is needed regardless of how the DBS program will ultimately be handled.

An alternative to utilizing a TPRK would be to handle the work within CalSTRS through modifications to the START system. Considering the various similarities between the three programs, investigating the use of START appears to be an efficient and prudent alternative. Utilization of START could be for one or both of the DBS and CB programs either immediately or over a period of time as dictated by the demands of plan administration.

World Group Proposal

WGC proposes utilizing the same technology and frameworks introduced into CalSTRS via the START system for accommodating both the CB and DBS programs. With this approach, all three programs would utilize the same technology and could also be run from a common computer platform. The major benefits of this approach are:

- Reusability of existing, proven components to lower both the cost and time needed for implementation.

- Ability to selectively share functionality and processing when dictated by the workings of the various plans. One simple example might be the sharing of plan participation information across all three programs.
- Simplification of internal CalSTRS user training by utilizing common system wide standards across all programs.
- Simplification of internal CalSTRS technical training.

WGC proposes conducting a GAP Analysis to determine the changes required to the START system to satisfy both the DBS and CB programs. A phased approach is recommended in order to implement functionality as soon as practical instead of waiting for a complete implementation. Such a phased approach would facilitate the need to implement the new DBS program legislation that became effective on January 1, 2001. In addition, a phased approach allows for delaying Phase II, if needed, based on business and/or budgetary considerations. Finally, a phased approach facilitates designing the system to budget.

Phase I would begin by setting out both the similarities of the programs along with the strategic direction for the integration of the three programs. There are several strategic directions that can be taken varying from stand-alone versions of START for each program to total integration of all 3 programs into START. Also, the assignment of tasks to Phases I and II will be resolved and planned during the start-up of Phase I.

Provisionally, Phase I would continue with the investigation of the record keeping and process requirements, primarily with respect to the new DBS program with some secondary consideration given to the requirements of the CB program. Included might be:

- Beneficiaries
- Retirement Applications and Elections
- Option Beneficiaries
- Disability Applications
- Survivor Benefits Applications
- Refunds
- One time payments.

Provisionally, Phase II would entail investigating the calculation and payment of periodic benefits for both the DBS and CB programs. In addition, the CB program would be studied more closely with a view towards potential implementation of features not already implemented in the CB program, since it was implemented as an “interim” solution. Included might be:

- Requirements of CB program not addressed during Phase I
- Periodic payment calculations
- Periodic payment
- Annual Statement
- Reports
- Planning and actuarial requirements.

CalSTRS will receive the following deliverables from each phase of the GAP Analysis:

- GAP Analysis Document containing both the business and technical requirements for the modification of START to handle the DBS and CB Benefit Programs.
- Proposal for the subsequent Development Phase.

WGC proposes conducting the GAP Analysis on a Time and Expense basis. WGC estimates that Phase I of the GAP Analysis will take approximately 30 (+/- 25%) person-weeks of WGC effort. Utilizing a single team of WGC staff, consisting of a Business Architect and Designer, the elapsed time would be approximately 14 weeks (+/- 25%). The cost of the Phase I GAP Analysis is estimated at approximately \$260,000 (+/- 25%). WGC estimates that Phase II of the GAP Analysis will take approximately 15 (+/- 25%) person-weeks of WGC effort. Utilizing a single team of WGC staff, consisting of a Business Architect and Designer, the elapsed time would be approximately 8 weeks (+/- 25%). The cost of the Phase II Gap Analysis is estimated at approximately \$130,000 (+/- 25%).

In addition to having a phased approach, WGC is proposing to overlap the Analysis and Development tasks as appropriate. An overlapping will probably lead to having two or three “releases” within each phase of development. Just like phases, overlapping promotes the ability to implement on an accelerated time schedule. On the other hand, overlapping can result in an overall increase in costs. The direction on overlapping will be determined during the GAP Analysis.

Until each Phase of the GAP Analysis is completed, WGC cannot estimate the extent of the modifications that would be needed for START to accommodate the programs. Staff is unable at this time to estimate the cost of the resulting Development Phases. For planning purposes, using a factor of three to four times the cost of the GAP Analysis would be appropriate given WGC’s prior experiences with this type of work. Therefore, the Development Phase could be \$780,000 to \$1,040,000 for Phase I and \$390,000 to \$520,000 for Phase II. It is anticipated Phase I could be completed by November of 2001, and Phase II by July of 2002.

Recommendation

Staff recommends we accept the WGC proposal and begin the GAP Analysis on May 1, 2001, provided that expenditures through 2001/02 by WGC do not exceed \$1.5 million. In this way, the project would be focused on providing a system or functionality within available budget.